Tesma

1996 ANNUAL REPORT

CORPORATE PROFILE

Tesma International Inc. is a global supplier of highly engineered powertrain, fueling and cooling systems and components for the automotive industry. Tesma's strong market presence and strategy for continuing growth results from its unique focus on **Innovation, Engineering** and **Performance**.

Tesma employs over 2,000 people at 15 manufacturing divisions in North America and Europe. Tesma's Class A Shares are listed for trading on The Toronto Stock Exchange (TSM.A) and the NASDAQ Stock Market (TSMAF).

Tesma

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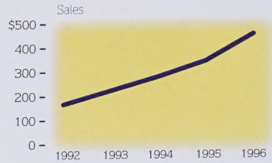
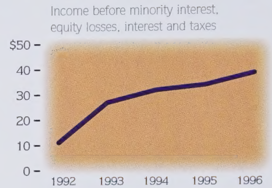
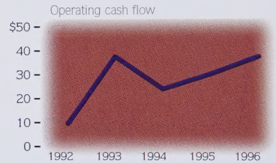
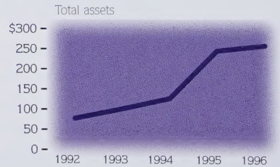
OUR FINANCIAL ACCOMPLISHMENTS

	Change	1996	1995
		(Canadian dollars in millions, except per share amounts)	
FOR THE YEAR			
Sales	+ 32%	**$ 455.6**	$ 344.9
Income before minority interest, equity losses, interest and taxes	+ 16%	**38.6**	33.3
Net income	+ 51%	**22.5**	14.9
Operating cash flow	+ 24%	**37.6**	30.3
Research & development expenditures	+ 93%	**8.7**	4.5
AT YEAR END			
Cash		**$ 35.3**	$ 47.8
Total assets		**258.4**	245.8
Long-term debt		**15.9**	20.2
Shareholders' equity		**147.5**	132.8
PER SHARE			
Earnings per Class A Subordinate Voting Share and Class B Share			
Basic		**$ 1.05**	$ 1.05
Fully diluted		**$ 0.91**	$ 1.03
Average number of Class A Subordinate Voting Shares and Class B Shares outstanding (millions)			
Basic		**18.0**	14.2
Fully diluted		**25.1**	14.5









REPORT TO SHAREHOLDERS

Tesma International Inc.'s first year as a separate public company proved to be very successful. We reported record sales of $455.6 million, record net income of $22.5 million and fully diluted earnings per share of $0.91. These achievements are particularly notable given that North American vehicle production levels decreased by 3% during fiscal 1996 while European volumes increased moderately. Although our financial results for the year exceeded the expectations of the investment community, our Class A share price did not reflect our performance. Looking forward, however, increased shareholder value is anticipated as we focus on "clean and lean" operating excellence and the continued development and introduction of innovative products and processing technologies.

During fiscal 1996, Tesma's manufacturing divisions continued to surpass customer expectations in the areas of technology, quality, delivery, cost and management. By doing so, many of our divisions again received supplier recognition awards from customers around the world. While all such awards are important to Tesma and distinguish us from our competitors, we particularly wish to acknowledge the efforts of our employees and divisional management for winning the following:

Litens:	Volkswagen's Top Supplier of the Year Award
M.S.M.:	the first QS9000 Certification within Tesma and General Motors' Supplier of the Year Award
Pullmatic:	Chrysler's Gold Pentastar and Saturn's Outstanding Achievement Recognition Award
Roto-Form:	Chrysler's Gold Pentastar
Splitcraft:	Hitachi's Supplier of the Year Award (third consecutive year)

The strategic direction of Tesma, initiated in fiscal 1996, is to further strengthen our position as a leading global supplier in each of our product lines. To support this strategy, our product and processing capabilities and engineering and development activities are organized in four "core" technology areas - Rotational Drive Technology, Rotational Products Technology, Power Transfer Technology and Liquid Transfer Technology.

Tesma has a diversified worldwide customer base that spans across each of the four major automotive markets - North America, Europe, Asia Pacific and South America - and we are recognized as an industry leader in many of our product lines. For example, in the case of accessory drive tensioners and systems, (as represented by our Rotational Drive Technology and, in particular, the Litens Automotive Group), Tesma has a dominant market share in both North America and Europe. In the area of mechanical timing belt tensioners, Litens supplies virtually the entire European market. In the case of pulley products (as represented by our Rotational Products Technology), Tesma has a dominant position in North America, while for transmission components (as represented by our Power Transfer Technology), Tesma has an expanding share in the substantial North American market. With respect to fueling and cooling components (as represented by our Liquid Transfer Technology and, in particular, the Blau Group of Companies), Tesma has a significant and increasing share in the markets for fuel caps and related components, and is developing its water management systems business, in both Europe and North America.

In addition to expanding our business in North America on strategically targeted engine and transmission programs, Tesma's challenge for the future is to successfully introduce our core products and technologies in the European market. Given our current booked business, outstanding quotation submissions and the expressions of interest received from our OEM customers, significant progress has already been made in this regard. With respect to Asia Pacific and South America, Tesma has established local sales and engineering support in Japan, South Korea and Brazil to take advantage of growing export sales opportunities to these markets. It is expected that as the Asian Pacific and South American

markets mature, vehicle demand and production rates will increase at annual growth levels that significantly exceed those of North America and Europe. Global sales and engineering capabilities will also ensure that Tesma will satisfy the demands of our customers for support and full service supply in all major markets.

To accelerate our modular systems supply capabilities, Tesma Powertrain Modules was introduced during fiscal 1996 to combine the engineering and processing competencies of our four core Technology areas in the development of advanced powertrain modules, including engine and transmission oil pumps, water pumps, integrated front engine covers and other high performance products. The first business unit in this group, STT Technologies Inc., is a joint venture established between Tesma and two German partners to supply proprietary oil pumps to the North American market. STT, which has the potential to utilize the products and services of our aluminum die casting and fineblanking divisions, is in the process of being awarded a significant oil pump supply contract for start of production in the 1999 model year.

Advanced modular systems developments were also initiated in the fueling and cooling areas during fiscal 1996. In Europe, the Blau Companies are participating in joint development programs with two OEM customers for assemblies with "on board refueling vapour recovery" (ORVR) and automated or "comfort" refueling capabilities. While the approach to conformance with safety and environmental legislation is unique to each OEM, the in-vehicle recovery of fueling vapours is mandatory by 1998 for vehicles sold in the United States. In North America, Blau is designing an integrated water management system using lightweight materials for application on a global engine program beginning production in the 1999 model year. The trend to smaller displacement engines, with increased coolant temperature and pressure requirements, is creating demand for innovative and technically advanced products and systems.

The success of every operation depends on the attitude, dedication and endeavours of its people. On behalf of Tesma's management, we wish to thank all of our employees for their support and efforts during fiscal 1996. Prospectively, our operational focus is on "clean and lean" for fiscal 1997, and we challenge our manufacturing divisions to become "best in class" leaders in efficient and orderly production.

Tesma will continue to pursue product and process innovation, operations excellence and the supply of high performance, value-added components and systems. With this focus, our global structure and competitive position, we believe that Tesma is well-positioned to take full advantage of the increasing opportunities in the powertrain, fueling and cooling product areas across the worldwide automotive industry.

Manfred Gingl (right)
President and Chief Executive Officer

Anthony E. Dobranowski (left)
Executive Vice President
and Chief Financial Officer

TESMA'S CORPORATE CONSTITUTION

Tesma's Corporate Constitution defines the rights of employees, management and investors to participate in Tesma's profits and growth, encourages technological development and promotes social objectives. Tesma's unique Employee Charter commits the Company to an operating philosophy based on fairness and concern for people. These core principles, in conjunction with a decentralized entrepreneurial management philosophy, create an environment where dedication and innovation are rewarded. The challenge for Tesma's management is to expand on these principles by developing, motivating and recruiting a superior team of well trained and experienced employees to build and support future growth. Accordingly, Tesma has made training and human resource development at all levels a top priority, and will ensure that significant "investments" are made in the people who design, develop, engineer and manufacture our products for our customers around the world.

Employee Equity and Profit Participation

10% of Tesma's profit before tax will be allocated to employees, recognizing length of service, as cash distributions and as contributions to the Tesma deferred profit sharing plan (which invests primarily in Tesma Class A shares).

Shareholder Profit Participation

Tesma will distribute during each of its 1996 and 1997 fiscal years at least 10% of its annual net profit to its shareholders. This amount increases to, on average, 20% of Tesma's annual net profit commencing in its 1998 fiscal year.

Management Profit Participation

To obtain long-term contractual commitment from senior management, the Company provides a compensation arrangement which allows for the distribution to corporate management of up to 6% of Tesma's profit before tax.

Research & Development

Tesma will allocate 7% of its profit before tax for research and development to ensure the long-term viability of the Company.

Social Responsibility

Tesma will allocate up to 2% of its profit before tax for charitable, educational and political purposes to support the basic fabric of society.

Taxes and Reinvestment

The balance of Tesma's profit before tax is allocated for future growth, reinvestment and taxes.

Minimum Profit Performance

Management has an obligation to produce a profit. If Tesma does not generate a minimum after-tax return of 4% on share capital for two consecutive years, the Class A shareholders, voting as a class, will have the right to elect additional directors.

Unrelated Investments

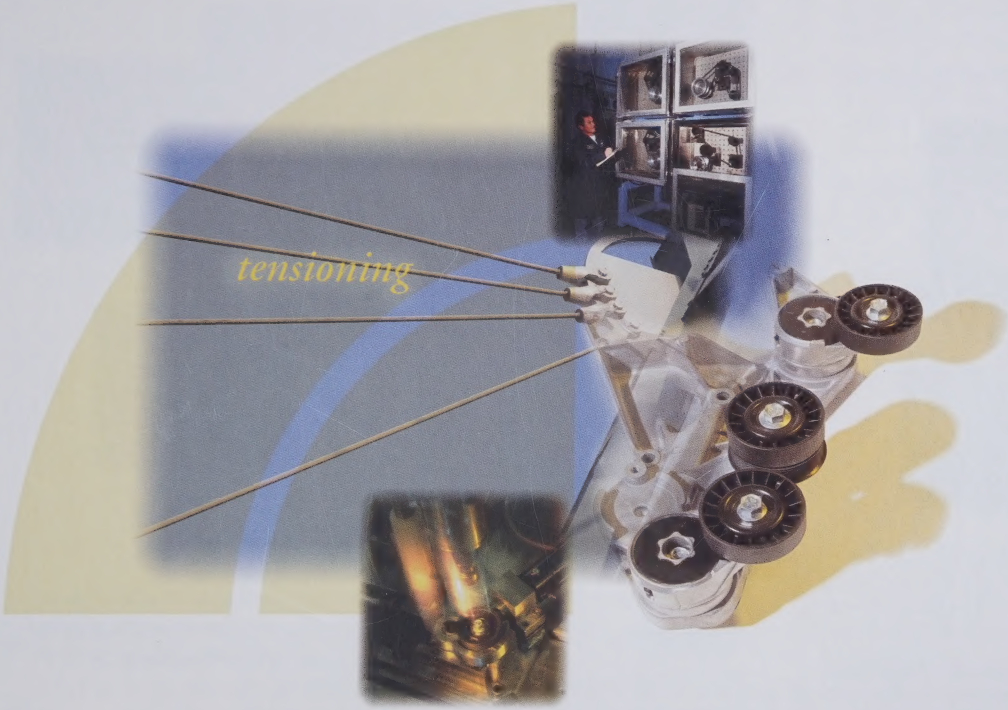
Class A and Class B shareholders, with each class voting separately, will have the right to approve any investment in an unrelated business in the event such investment together with all other investments in unrelated businesses exceeds 20% of Tesma's equity.

Board of Directors

Tesma believes that outside directors provide independent counsel and discipline. A majority of the members of Tesma's Board of Directors will be individuals who are not officers or employees of the Company, at least two of which will be complete outsiders.

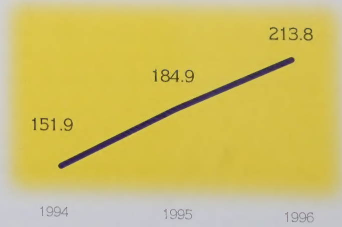
OPERATIONS REPORT

ROTATIONAL DRIVE TECHNOLOGY



Tesma's Rotational Drive Technology is represented by the Litens Automotive Group, a pioneer in the design, development and supply of automotive belt tensioning modules and other highly engineered engine and drivetrain systems and components. As an internationally recognized leader in the field of automatic tensioning devices, Litens is a role model for Tesma's modular development and advanced systems supply strategy.

Sales ($ millions)



Building from its first production automotive belt tensioner in 1978, Litens continues to be the highest volume supplier of automatic tensioning devices to the global automotive market. In addition to its increasing exports to the Asian Pacific and South American markets, Litens currently supplies over 50% of the North American front end accessory drive (FEAD) and European FEAD and engine timing belt-drive tensioner applications. Litens' global market position is supported by manufacturing operations in North America (Canada) and Europe (Germany), as well as sales and engineering offices in the U.S.A., Canada, Brazil, England, France, Germany, Italy, South Korea and Japan.

Superior product design, development and engineering skills are a hallmark of Litens' success. Over 25% of the employee base of Litens is directly involved in product design, development, testing and manufacturing engineering. This technically oriented employee group has developed complete tensioner applications knowledge and is capable of leading entire FEAD systems programs, from concept to production, for automotive customers around the world.

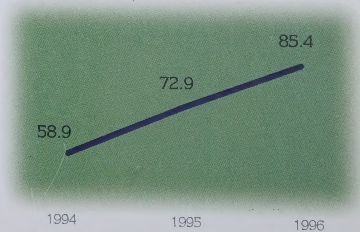
Litens' market position has also been developed through the use of flexible synchronous manufacturing techniques, where dedicated work teams achieve world class levels of product quality and volume output on in-house designed equipment and machinery. Litens uses specialized testing equipment and state-of-the-art procedures developed to meet individual customer needs. Additionally, to optimize "design to market" time, Litens has in-house prototyping capabilities which enable the development and supply of production representative components and systems within remarkably short lead times.

Litens continues to focus its engineering and development efforts on new product applications in the engine and drivetrain areas. Recent developments include overrunning alternator decoupler assemblies, crankpulley torque modulators, and specialty sprockets and pulleys - innovative, engineered solutions to customer challenges for improved engine performance, packaging and reliability.

ROTATIONAL PRODUCTS TECHNOLOGY

Tesma has established a position of global leadership in the design, development and manufacture of front end accessory drive (FEAD) pulley products through its Rotational Products Technology. Tesma's manufacturing divisions produce over 40 million steel, phenolic, plastic and aluminum pulleys annually, for virtually all engine applications - crankshafts, alternators, power steering pumps, air conditioning compressors and water pumps. A comprehensive understanding of the function, performance and potential failure modes of these products has enabled Tesma to establish a technical advantage that is without parallel.

Sales ($ millions)



Tesma's leadership in the pulley product segment is highlighted by a 75% share of the North American automotive market, supplying virtually every engine manufacturer in Canada, the U.S.A. and Mexico. Tesma also exports pulleys and other rotational products to both the Korean and Japanese automotive markets. With increased local sales and engineering representation, and a growing customer appreciation of Tesma's full service capabilities, the Asian Pacific market offers substantial business opportunities in the near term.

Historically, Tesma has focused its resources on expanding its pulley production opportunities in North America, consciously disregarding the European markets. In fiscal 1996, Tesma began marketing its Rotational Products Technology in Europe and was successful in securing several pulley production contracts for export from North America. Based on this initial marketing success and continuing requests from various European OEMs, Tesma expects to receive sufficient additional business to justify the establishment of a pulley manufacturing facility in Europe.

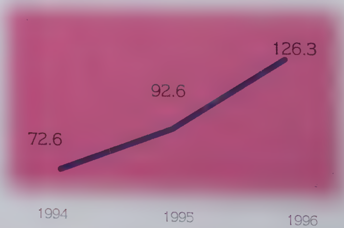
In addition to capitalizing on geographic opportunities, specific engine noise, vibration and harshness (NVH) performance issues and changing consumer demands also provide strategic growth prospects for Tesma's Rotational Products Technology. For example, lower engine idle speeds and the increased use of dual mass fly wheels have increased crankshaft torsional stresses to unacceptable levels. New product developments to resolve such engine NVH issues include Tesma's proprietary vibration attenuation devices. In Europe, consumer demand for air conditioning systems in new vehicles is increasing significantly. Tesma is North America's leader in the development of technically demanding air conditioning clutch rotors and, therefore, is well positioned to participate in this growth area.

Tesma's Rotational Products Technology is applied in five manufacturing divisions located in North America. Utilizing the latest techniques in metal forming, spinning and plastics moulding in combination with the latest manufacturing principles, Tesma's divisions offer a full range of high quality pulleys and other rotational products to satisfy the most stringent customer requirements. With specialized in-house design, engineering, tooling and testing capabilities and multi-material processing expertise, Tesma truly provides innovative solutions in this automotive product segment.

POWER TRANSFER TECHNOLOGY

Tesma is well positioned, through its Power Transfer Technology, for growth in the multi-billion dollar market for transmission components and subassemblies. Tesma's particular strengths in this product area include the application of various distinct manufacturing processes - die-forming, flow forming, stamping and spinning, synchronous roll-forming, die casting and fineblanking - often in combination, to develop innovative products that are superior to existing multi-piece cast and machined components.

Sales ($ millions)



Tesma's unique die-formed one-piece clutch housings offer advantages in strength, durability and performance over traditional designs, while eliminating machining and assembly operations. Such products are gaining acceptance in North America and have been recently selected for a new line of automatic truck transmissions. Tesma is also prototyping one-piece clutch housings for a new small automatic transmission being engineered in Japan for production in North America. A fiscal 1996 advancement in Tesma's die-forming technology has enabled it to replicate existing gear tooth profiles. This development is expected to allow wider market acceptance and earlier production application for Tesma's die-formed one-piece clutch housings.

Tesma continues to win significant new business with its proprietary one-piece roll-formed flexplates, a development which provides noise, weight, packaging and cost advantages over existing two-piece and spline-formed one-piece designs. Additionally, Tesma's two-piece flexplate capability allows Tesma to service customers which, for various design reasons, continue to require a two-piece product.

Tesma's Power Transfer Technology includes a facility for high pressure aluminum die casting, which uses "vacuum" and "shot control" technologies for the supply of intricate thin-walled castings for various engine and transmission applications. Improvements to, and the expansion of, Tesma's engineering and processing capabilities during fiscal 1996 have resulted in a technically advanced, high quality casting and machining division which has secured substantial new business.

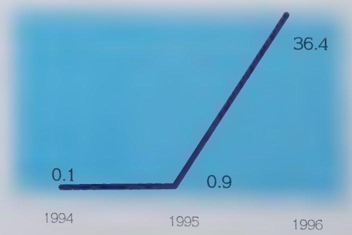
Tesma's Power Transfer Technology also encompasses precision fineblanking - a specialized process for the stamping of a wide variety of heavy gauge transmission and other automotive components, where tight tolerances, high quality surface finish and production uniformity are critical. Fineblanking represents a competitive alternative, in powertrain applications, to more conventional manufacturing processes. During fiscal 1996, Tesma continued to expand its market position and added further high tonnage fineblanking capacity which will become operational in fiscal 1997.

LIQUID TRANSFER TECHNOLOGY

Tesma's Liquid Transfer Technology is represented by the Blau Group of Companies which supply specialized automotive fueling and cooling systems and products.

The Blau Companies in Europe are leading suppliers of automotive caps - fuel, radiator, coolant reservoir, oil - and related fueling components as well as "under the hood" liquid carrying components and modules - thermostat housings, coolant inlet and outlet assemblies and other encapsulated metal/plastic components. In North America, Blau's share in the coolant reservoir cap and fuel cap/filler neck assembly business is growing significantly.

Sales ($ millions)



Although the European operations of Blau have existed for over 70 years, they were rationalized during fiscal 1994 and 1995 and a new plant was constructed in Austria. Strategically, these changes were necessary to segregate Blau Europe's metal processing and injection moulding technologies to enable focussed production, progressive development and separate product innovation in metal and plastic materials. In addition to Blau Europe's Spanish joint venture and aftermarket business, OEM production was also expanded to North America with the establishment of a new manufacturing facility in Canada. In late fiscal 1995, this facility commenced commercial supply of a unique pressure-valved coolant reservoir cap which enables automotive OEMs to use sealed radiator systems. During fiscal 1996, Blau's North American facility also launched its first "corporate" fuel cap and filler neck assembly, an innovative product designed for application across numerous customers and vehicle platforms.

Blau's engineering and development centres are strategically organized to concentrate on specific product areas, while maintaining the ability to leverage innovative designs for production purposes on a global basis. Accordingly, the focus of Blau Europe's R&D activities is on complex fueling system developments, while North American design and engineering staff concentrate on water management systems. Early successes of this R&D strategy include the participation by Blau Europe in joint development programs with two OEM customers for assemblies with "on board refueling vapour recovery" (ORVR) and automated or "comfort" refueling capabilities, and the award of a prototype development contract to Blau North America for an integrated water management system using lightweight plastic and steel materials for application on a global engine program.

The increasingly stringent legislative requirements for automotive fueling and cooling systems, together with growing consumer convenience demands, present numerous opportunities for the Blau Group of Companies. The strategic product focus in fiscal 1997 and beyond will centre on the continued development of innovative components and modules which offer reliability, part and weight reduction and the use of environmentally safe and recyclable materials for the management and handling of fuel and cooling liquids.

Tesma Powertrain Modules was established in fiscal 1996 to address the automotive industry trend towards sourcing modular products for engine and drivetrain applications. Tesma Powertrain Modules will combine the engineering, testing and diversified processing expertise of Tesma's four core Technology areas and, where necessary, secure additional capabilities not found in-house through new innovations, acquisitions, joint ventures and strategic partnerships.

STT Technologies Inc., a joint venture between Tesma and two German partners, Schwäbische Hüttenwerke GmbH and Trochocentric GmbH, is the first Tesma Powertrain Modules business unit, dedicated to the development and supply of proprietary oil pumps for engine and transmission applications. STT will use product and processing technologies successfully implemented in Europe and Asia Pacific to develop superior products for the North American market.

Through the application of Tesma's **Innovation**, **Engineering** and **Performance** approach to product excellence, Tesma Powertrain Modules will focus on identifying, developing and supplying increasingly advanced, highly engineered product modules and systems – oil pumps, water pumps, clutch pack assemblies, modular fueling systems, water management systems, integrated front engine covers and other high performance products – for use in engines and transmissions for the global automotive industry.

POWERTRAIN MODULES

To supplement and support the activities in Tesma's four core Technology areas, Tesma's Engineering Centre provides complete product design, engineering, testing and validation services.

In addition to extensive CAD capabilities, the Tesma Engineering Centre has full analytical proficiencies, including finite element analysis, theoretical modal analysis, system dynamic analysis and flow modelling analysis (for high pressure die casting). Moreover, the Engineering Centre maintains the in-house testing resources to supply measurement and analytical evaluations of complete front end accessory drive (FEAD) systems and all of their individual components. This testing capability allows Tesma to optimize system and component designs and address resultant engine noise, vibration and harshness (NVH) performance issues prior to production, thus minimizing the possibility of fatigue and failures in the field. Complete systems measurement and analysis also enables Tesma to identify and perform bench tests of individual FEAD components which reduce "real time" testing during the latter phases of new engine development programs.

Consistent with Tesma's commitment to the development of innovative products and systems, the Tesma Engineering Centre is also actively involved in the design and engineering of future products for the next generation of vehicles, engines and transmissions. Current research and development activities include: an overrunning alternator clutch to address noise and belt squeal issues during rapid deceleration; balance shafts to address engine vibration problems in small block designs; and a managed speed accessory drive system to permit the FEAD system to power accessories while reducing engine drag and idle speeds (thus saving horsepower and improving fuel economy). These and other R&D activities will enable Tesma to maintain its industry reputation and leadership position across its current and future product lines.

ENGINEERING

ROTATIONAL DRIVE TECHNOLOGY
- Accessory Drive Belt Tensioners and Systems
- Engine Timing Belt-Drive Tensioners
- Drive Shaft Assemblies
- Idler Assemblies
- Crankpulley Torque Modulators
- Overrunning Alternator Decoupler Assemblies

ROTATIONAL PRODUCTS TECHNOLOGY
- Alternator Pulleys
- Crankshaft Pulleys
- Water Pump Pulleys
- Power Steering Pump and Pulley Assemblies
- Phenolic Pulleys
- Aluminum Pulleys
- Air Conditioning Rotors
- Crankshaft Isolators
- Torsional Vibration Dampers

POWER TRANSFER TECHNOLOGY
- One & Two-Piece Flexplates
- Roll-Formed Transmission Components
- Die/Flow Formed Transmission Components
- One-Piece Clutch Pistons
- Fineblanked Components
- Aluminum Die Cast Components

LIQUID TRANSFER TECHNOLOGY
- Fuel Caps
- Coolant Reservoir and Radiator Caps
- Oil Caps
- Thermostat Housings
- Fuel Filler Neck Assemblies
- Coolant Inlet/Outlet Assemblies
- Vapour Recovery Valves
- Encapsulated Metal/Plastic Components

POWERTRAIN MODULES
- Oil Pumps
- Water Pumps
- Integrated Front Engine Covers

INNOVATION

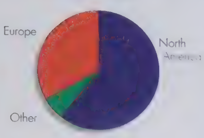
ENGINEERING

PERFORMANCE

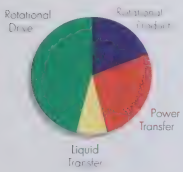
FINANCIAL REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL POSITION

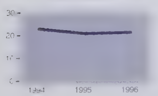
Geographic Distribution of Sales - 1996



Sales by Area of Focus



Gross Margin
(% of sales)



Management's discussion and analysis of operations and financial position should be read in conjunction with the accompanying consolidated financial statements. The discussion and analysis compares Tesma's operating results for the fiscal years ended July 31, 1996 and 1995 and its financial position at July 31, 1996 and 1995. The consolidated balance sheet at July 31, 1995 gives effect to the reorganization of Tesma's capital and debt structure which was completed on July 18, 1995 in anticipation of its initial public offering, as well as the acquisition of the remaining interests in the Blau Companies on July 31, 1995.

On July 31, 1995, Tesma completed the public offering of 2,990,000 Class A Subordinate Voting Shares for total proceeds of $31.4 million. As anticipated in Tesma's offering prospectus, the Company has expanded and grown through the selective investment and deployment of these proceeds during its first year as a public company.

Tesma operates in two geographic segments, supplying automotive components, systems and tooling to OEMs worldwide from its plants in Canada and Europe. Tesma's fifteen manufacturing plants, which function as autonomous operating units, are organized into four "core" areas of focus: Rotational Drive Technology, Rotational Products Technology, Power Transfer Technology and Liquid Transfer Technology. Although Tesma is most significantly affected by the levels of North American and European vehicle production, other worldwide vehicle markets are gaining importance as Tesma continues to expand through export activities to Asia Pacific, Australia and South America out of both North America and Europe. To support this growth and service current and prospective customers, sales, marketing and engineering activities have been expanded in England, France, Italy, South Korea, Japan and South America.

RESULTS OF OPERATIONS

Sales: Tesma's consolidated sales increased 32% to a record $455.6 million in 1996, compared to $344.9 million in 1995. North American production sales increased 28% to $328.3 million from $255.9 million in 1995 despite a North American production volume decrease of 3%. The two most significant factors contributing to this increase were higher exports to Europe, South America, Asia Pacific and Australia which contributed 32%, and higher content and penetration of the Company's products on North American engine and transmission programs which accounted for the balance. European production sales increased by 55% to $103.1 million from $66.6 million in 1995. The consolidation of the sales of Blau Europe, which forms part of Tesma's Liquid Transfer Technology, accounted for 81% of this increase, while increased penetration in Europe and other export sales contributed the remainder.

In 1996, the net impact of fluctuations in foreign currencies in which Tesma transacts a significant portion of its business was an increase in sales of less than 1%. A portion of Tesma's foreign currency inflows are naturally hedged through the purchase of materials and capital equipment denominated in these currencies. The remaining exposure is hedged using a conservatively structured hedging program that identifies foreign exchange exposures as they occur and mitigates the risk of fluctuating currencies through the use of foreign exchange forward contracts that extend for periods of up to six years. Despite these measures, significant long-term fluctuations in relative currency values could affect Tesma's results of operations. In particular, Tesma's results of operations could be affected by a significant change in the value of the Canadian dollar against the U.S. dollar or the German deutschmark.

Tooling sales, an indicator of new business activity, increased by $1.8 million to $24.2 million from $22.4 million in 1995.

Tesma's changing sales mix reflects its increasing global presence, product diversity and platform independence. Sales to Tesma's North American customers decreased from 66.0% of sales in 1995 to 60.8% of sales in 1996. The value of Tesma's sales to its European customers grew from 28.2% of sales in 1995 to 33.2% in 1996, and, most significantly, exports to other countries increased by 38% to $27.5 million in 1996 and now represent 6% of sales as compared to 5.8% in 1995. At the same time, Tesma's dependence on its four largest customers dropped from 77% of sales in 1995 to 70% in 1996 and no single engine or transmission program accounted for more than 5% of Tesma's consolidated sales in either 1995 or 1996. Rotational Drive Technology's total sales (including intercompany and tooling sales) of $213.8 million in fiscal 1996 increased from $184.9 million in 1995, as a result of increased North American penetration and increased export sales. Rotational Drive Technology represents 47% of consolidated sales compared to 54% in 1995. Rotational Product Technology's total sales of $85.4 million in 1996 increased from $72.9 million in 1995 and Power Transfer Technology's total sales of $126.3 million in 1996 increased from $92.6 million in 1995 largely as a result of the commencement of new programs and increased North American penetration. These areas of focus represent 19% and 28% respectively, of consolidated sales versus 21% and 27% in 1995. Liquid Transfer Technology's total sales of $36.4 million in 1996 increased from $0.9 million in 1995 as a result of the consolidation of the sales of Blau Europe for the first time in 1996 (previously equity accounted) and the commencement of new production programs in North America. Liquid Transfer Technology represents 8% of Tesma's consolidated sales.

Gross Margin: Gross margin as a percentage of sales improved to 21.4% from 20.9% in 1995. Better capacity utilization, more favourable material pricing and a favourable product mix contributed to this improvement. Offsetting the effect of these improvements were the inefficiencies created by the ramp-up of new production programs, an increase in research and development costs and lower margins on European sales compared to North American sales. While Tesma has programs in place which have enabled us to remain

competitive by offsetting required price concessions through improved efficiencies and cost reductions, there can be no assurance that these programs will enable Tesma to successfully respond to future competitive pressures.

Net research and development expenditures for 1996 were $8.7 million, an increase of 93% over fiscal 1995. Tesma's current strategy is to continue to develop innovative highly engineered products and processes, both current and future, in part through expanded research and development capabilities. This focus on technological development helps us to maintain the advantages we enjoy when competing for new business and providing unique solutions to our customers.

Depreciation and amortization: Depreciation and amortization costs increased from $9.1 million in 1995 to $14.8 million in 1996 (representing 3.3% of sales in 1996 and 2.6% in 1995). The increase reflects Tesma's continuing investments in capital equipment to support new production programs, and increased depreciation and goodwill amortization as a result of the Blau acquisition in July 1995.

S, G & A: Selling, general and administrative expenses increased from $22.2 million (6.4% of sales) in 1995 to $33.9 million (7.4% of sales) in 1996. Contributing to the increase were the consolidation of the selling, general and administrative expenses of Blau Europe acquired on the final day of fiscal 1995, higher costs incurred to support Tesma's "full service supplier" commitments, increased costs of the additional sales and engineering offices to service Tesma's geographically diverse customer base, and the establishment of a public company structure.

Interest expense: Interest expense decreased to $0.3 million (net of interest income of $0.6 million) from $2.3 million (net of interest income of $0.1 million) in 1995, largely as a result of the conversion of the debt due to Magna into Convertible Series Preferred Shares in July 1995. The 1996 interest was earned on cash balances which arose from proceeds received on the closing of Tesma's public offering in July 1995 and cash generated from operations throughout the year. Interest on long-term debt increased by $0.8 million in 1996 due to the consolidation of long-term debt acquired on the Blau acquisition.

Affiliation fees and other charges: Tesma is obligated to pay fees for certain rights and services provided by Magna under the terms of an affiliation agreement. The fees are based on specified percentages of Tesma's adjusted sales and pre-tax profits, and include other specific charges. The fees and charges paid to Magna in 1996 were $10.0 million, compared to $7.6 million in 1995, as a result of higher sales and pre-tax profits.

Equity loss: Blau Europe's results are fully consolidated in 1996 as a result of the purchase of the remaining 55% of the company not previously owned. In 1995, Tesma's 45% share of the losses of Blau Europe was $4.5 million.

Income taxes: Tesma's effective income tax rate increased to 41.3% in 1996, compared to 39.3% in 1995 (before equity losses which were not tax effected). Tesma's tax rates exceeded expected Canadian income tax rates as a result of higher foreign tax rates and losses in its Austrian subsidiary which have not been tax benefited.

Net income: Net income for 1996 increased 51% to $22.5 million, compared to $14.9 million in 1995. However, the deduction from net income of dividends declared and paid on Convertible Series Preferred Shares reduced net income attributable to Class A Subordinate Voting Shares and Class B Shares to $18.9 million.

Earnings per share: Despite a 73% increase in the average number of shares outstanding for fiscal 1996 on a fully diluted basis to 25.1 million shares from 14.5 million shares in 1995, the fully diluted earnings per Class A Subordinate Voting or Class B Share declined only 12% to $0.91 from $1.03 in 1995. Basic earnings per Class A Subordinate Voting or Class B Share was $1.05 in each period despite an increase in the number of outstanding shares by 26% to 18.0 million.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

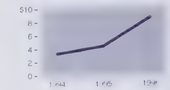
Cash flow from operations: During 1996, Tesma generated cash from operating activities of $37.6 million, compared to $30.3 million in 1995. The improvement of $7.3 million was the result of the $7.6 million increase in net income and an increase in non-cash expenses of $2.8 million, offset by an increase in non-cash working capital of $3.1 million which is supporting the larger base of sales.

Investment activities: Capital and investment spending totalled $29.3 million (net of proceeds from disposition) in 1996 compared to $38.7 million in 1995. Additions to fixed assets increased by 3% to $29.2 million in 1996 ($28.3 million in 1995). Other investment spending in fiscal 1995 included $8.2 million paid to acquire the remaining interests in the Blau companies. Spending on fixed assets in 1996 was largely in support of new production programs, and was funded primarily from the proceeds received on the closing of Tesma's public offering in July 1995. Capital spending in 1997 is expected to be $37 million, largely in support of awarded production programs, required maintenance improvements and other process related expenditures. Management believes that cash balances on hand, existing unutilized credit facilities, and internally generated funds from operations will be sufficient to meet all planned capital requirements.

Financing: Cash provided by operating activities was used to fund the repayment of debt due to Magna in the amount of $9.9 million, reduce long-term and other indebtedness in the amount of $5.2 million, and pay dividends on the Convertible Series Preferred Shares, Class A Subordinate Voting Shares and Class B Shares in the amount of $6.3 million.

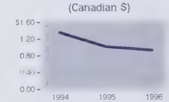
Dividends: Tesma's Corporate Constitution requires the payment of at least 10% of after-tax profits (after any preference share dividends) for each of the fiscal years ending July 31, 1996 and 1997. Although the minimum dividend required for 1996 was $1.9 million, the Company has declared dividends in respect of its Class A Subordinate Voting and Class B Shares in the amount of $3.6 million (20 cents per share), $2.7 million of which was paid to shareholders before July 31, 1996. Dividends paid have been financed out of cash flow from operations.

Research & Development Expenses (Canadian $ millions)

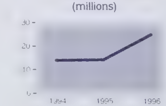


Basic Earnings per Share (Canadian $)

Fully Diluted Earnings per Share (Canadian $)



Fully Diluted Average Number of Class A & Class B Shares Outstanding (millions)



Fixed Asset Additions (Canadian $ millions)

1997 OUTLOOK

Management expects worldwide production of vehicles to exceed 51 million units in 1997, with primary growth in emerging markets. North American production is expected to decline by approximately 2.5% while production in Western Europe is anticipated to increase in the range of 5%. As a result of secured contracts commencing in 1997, anticipated increased outsourcing by OEMs in the powertrain area, requirements for global sourcing, increased exports and increased development work which should lead to production contracts, management anticipates, without making assurances as to future results, continued growth in sales and earnings into the immediate future.

PENDING ACCOUNTING CHANGES IN 1997

The Canadian Institute of Chartered Accountants has issued new accounting recommendations for the presentation and disclosure of financial instruments. These recommendations impact on the classification of the Company's Convertible Series Preferred Shares and will be adopted by Tesma on a retroactive basis commencing in fiscal 1997 as discussed in Note 10 [a] to the consolidated financial statements. The anticipated effect on the fiscal 1996 reported net income is not material, and fully diluted earnings per share is not affected.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Tesma's management is responsible for the preparation and presentation of the consolidated financial statements and all other information in this Annual Report. The consolidated financial statements were prepared by management in accordance with generally accepted accounting principles, and, where appropriate, reflect estimates based upon the judgement of management. Where alternative accounting methods exist, management has selected those that it considered to be the most appropriate in the circumstances. Financial information presented elsewhere in this Annual Report has been prepared by management on a basis consistent with the consolidated financial statements. The consolidated financial statements have been reviewed by the Audit Committee and approved by the Board of Directors of Tesma.

Management is responsible for the development and maintenance of systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate, relevant and reliable, and that Tesma's assets are appropriately accounted for and adequately safeguarded.

Tesma's Audit Committee is appointed by the Board of Directors and is completely comprised of outside directors. The Committee meets periodically with management, as well as with the independent auditors, to satisfy itself that each is properly discharging its responsibilities, to review the consolidated financial statements and the independent auditors' report and to discuss significant financial reporting issues and auditing matters. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders.

The consolidated financial statements have been audited by Ernst & Young, the independent auditors, in accordance with generally accepted auditing standards on behalf of the shareholders of Tesma. The Auditors' Report outlines the nature of their examination and their opinion on Tesma's consolidated financial statements. The independent auditors have full and unrestricted access to the Audit Committee.

Toronto, Canada
September 12, 1996

A. E. Dobranowski

Anthony E. Dobranowski
Executive Vice President and Chief Financial Officer

James L. Moulds
Controller

AUDITORS' REPORT

To the Shareholders of Tesma International Inc.

We have audited the consolidated balance sheets of Tesma International Inc. as at July 31, 1996 and 1995 and the consolidated statements of income and retained earnings and cash flows for each of the years in the three-year period ended July 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 1996 and 1995 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended July 31, 1996 in accordance with accounting principles generally accepted in Canada.

Toronto, Canada,
September 12, 1996.

Chartered Accountants

CONSOLIDATED BALANCE SHEETS

	Note	1996	1995
		As at July 31	
		[Canadian dollars in thousands]	
ASSETS			
Current			
Cash		$ 35,264	$ 47,793
Accounts receivable	5	57,429	45,263
Inventories	6	44,096	39,171
Prepaid expenses and other		4,654	5,819
Accounts receivable from related companies		1,431	1,342
		142,874	139,388
Investments	4	542	341
Notes receivable	5	143	586
Fixed assets	4,7	107,078	96,140
Other assets	4	7,784	9,343
		$ 258,421	$ 245,798
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness	9	$ 6,623	$ 9,895
Accounts payable		30,609	27,013
Accrued salaries and wages		11,362	6,928
Other accrued liabilities		15,919	15,549
Income taxes payable	8	2,798	7,857
Accounts payable to related companies		2,362	1,182
Debt due to Magna	2,9,15		9,944
Long-term debt due within one year	9	3,310	2,051
		72,983	80,419
Long-term debt	9	15,934	20,230
Deferred income taxes	8	22,019	12,371
SHAREHOLDERS' EQUITY			
Convertible Series Preferred Shares	10	70,000	70,000
Class A Subordinate Voting Shares	10	36,593	36,688
Class B Shares	2,10	2,583	2,583
Retained earnings		35,436	19,209
Currency translation adjustment	11	2,873	4,298
		147,485	132,778
		$ 258,421	$ 245,798

Commitments and contingencies *[notes 4, 9 and 16]*

See accompanying notes

On behalf of the Board:

Director

Director

Incorporated under the laws of Ontario

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

	Note	1996	1995	1994
		Years ended July 31		
		[Canadian dollars in thousands, except per share figures]		
Sales	15	**$ 455,580**	$ 344,908	$ 280,343
Cost of goods sold	15	**358,202**	272,727	216,053
Depreciation and amortization		**14,829**	9,062	7,260
Selling, general and administrative		**33,940**	22,216	17,304
Interest	9,15	**343**	2,316	887
Affiliation fees and other charges	15	**9,991**	7,567	7,132
Equity loss	2		4,486	710
Income before income taxes and minority interest		**38,275**	26,534	30,997
Income taxes	8	**15,792**	12,029	11,994
Minority interest			(406)	(494)
Net income		**22,483**	14,911	19,497
Dividends on Convertible Series Preferred Shares		**(3,565)**		
Net income attributable to Class A Subordinate Voting Shares and Class B Shares		**18,918**	14,911	19,497
Retained earnings, beginning of year		**19,209**	34,400	19,097
Reduction in stated capital of Class B Shares	10		17,917	
Dividends	10	**(2,691)**	(48,019)	(4,194)
Retained earnings, end of year		**$ 35,436**	$ 19,209	$ 34,400
Earnings per Class A Subordinate Voting Share or Class B Share				
Basic	10	**$ 1.05**	$ 1.05	$ 1.37
Fully diluted	10	**$ 0.91**	$ 1.03	$ 1.37
Average number of Class A Subordinate Voting Shares and Class B Shares outstanding during the year [in millions]				
Basic	10	**18.0**	14.2	14.2
Fully diluted	10	**25.1**	14.5	14.2

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	1996	1995	1994
		Years ended July 31 [Canadian dollars in thousands]		
CASH PROVIDED FROM (USED FOR):				
OPERATING ACTIVITIES				
Net income		**$ 22,483**	$ 14,911	$ 19,497
Items not involving current cash flows	13	**17,195**	14,382	16,504
		39,678	29,293	36,001
Changes in non-cash working capital	13	**(2,054)**	959	(11,873)
		37,624	30,252	24,128
INVESTMENT ACTIVITIES				
Fixed asset additions		**(29,175)**	(28,318)	(15,778)
Increase in investments and other	2	**(1,142)**	(2,922)	(1,781)
Purchase of subsidiaries	4		(8,170)	
Proceeds from disposition of fixed assets and other		**1,041**	664	1,190
		(29,276)	(38,746)	(16,369)
FINANCING ACTIVITIES				
Increase in notes receivable from employees	5	**(8)**	(1,182)	
Repayment of notes receivable from employees	5	**559**		
Increase (decrease) in bank indebtedness		**(3,272)**	2,522	3,022
Issues of long-term debt	9	**94**		81
Repayments of long-term debt	9	**(1,955)**	(1,131)	(819)
Repayments of debt due to Magna, net	2,9	**(9,944)**	(20,843)	(12,972)
Proceeds on issuance of Convertible Series Preferred Shares	10		70,000	
Class A Subordinate Voting Shares issued on acquisition of subsidiaries	4,10		7,761	
Net proceeds on issuance of Class A Subordinate Voting Shares	10	**(95)**	28,927	
Capital contributions by minority interest				715
Increase in Class B Shares	2,10		335	875
Issuance of Class B Shares	10		17,917	
Dividends on Class A Subordinate Voting Shares and Class B Shares	10	**(2,691)**	(48,019)	(4,194)
Dividends on Convertible Series Preferred Shares	10	**(3,565)**		
		(20,877)	56,287	(13,292)
Net increase (decrease) in cash during the year		**(12,529)**	47,793	(5,533)
Cash, beginning of year		**47,793**		5,533
Cash, end of year		**$ 35,264**	$ 47,793	$ -

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
The consolidated financial statements have been prepared in Canadian dollars following accounting policies generally accepted in Canada. These policies are also in conformity, in all material respects, with accounting policies generally accepted in the United States except as described in Note 17 to the consolidated financial statements.

Principles of Consolidation
The consolidated balance sheets as at July 31, 1996 and 1995 give effect to the corporate reorganization which occurred July 18, 1995 whereby Tesma International Inc. [the "Company"] acquired from its parent company, Magna International Inc. ["Magna"], Magna's 55% interest in Blau Autotec Inc. ["Blau North America"] and 45% interest in Blau International Ges.m.b.H ["Blau Europe"] in exchange for 254,256 Class B Shares of the Company. In addition, the Company issued promissory notes in the amount of $9.2 million in exchange for Magna's advances to Blau North America and Blau Europe. As these transactions are among companies under common control, they have been accounted for in a manner similar to a pooling of interests which recognizes the continuity of ownership interest which continues to exist. Accordingly, the results of Blau North America have been consolidated with the accounts of the Company from commencement of operations in July 1993, and the 45% interest in Blau Europe has been accounted for on the equity basis from the date of acquisition by Magna in 1993. On July 31, 1995, the Company acquired the remaining interests in Blau North America and Blau Europe as further described in Note 4 and the Company, Tesma Manufacturing Inc. [a wholly-owned subsidiary] and Blau North America amalgamated and continued to operate as Tesma International Inc.

The Company accounts for its interest in the Litens Automotive Partnership ["LAP"] and its subsidiaries, and its interest in STT Technologies Inc. ["STT"] which was formed on May 21, 1996 using the proportionate consolidation method as the Company has joint control of both of these ventures. The Company accounts for its investments in which it has significant influence on the equity basis.

Management's Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management believes that the estimates utilized in preparing its consolidated financial statements are reasonable and prudent; however, actual results could differ from these estimates.

Cash
Cash includes cash on account, demand deposits and short-term investments with original maturities of three months or less. Cost approximates fair value.

Inventories
Inventories are valued at the lower of cost and net realizable value, with cost being determined substantially on a first-in, first-out basis. Cost includes the cost of materials plus direct labour applied to the product and the applicable share of manufacturing overhead.

Fixed Assets
Fixed assets are recorded at historical cost, including interest capitalized on construction in progress, less related investment tax credits and government grants.

Depreciation is provided on a straight-line basis over the estimated useful lives of fixed assets at annual rates of 2 1/2% to 5% for buildings, 7% to 10% for general purpose equipment and 10% to 30% for special purpose equipment.

Goodwill
Goodwill, which is the excess of the purchase price of the Company's interest in subsidiary companies over the fair value of the underlying net identifiable assets arising on acquisitions, is amortized over periods not exceeding 40 years. Goodwill is evaluated in each reporting period to determine if there were events or circumstances which would indicate a possible inability to recover the carrying amount. Such evaluation is based on various analyses including profitability projections and undiscounted future cash flows.

Revenue Recognition
Revenue from sales of manufactured products is recognized upon shipment to customers.

Government Financing
The Company makes periodic applications for financial assistance under available government assistance programs in the various jurisdictions in which the Company operates. Grants relating to capital expenditures are reflected as a reduction of the cost of the related assets. Grants and tax credits relating to current operating expenditures are recorded as a reduction of expense at the time the eligible expenses are incurred. The Company also receives loans which are recorded as liabilities in amounts equal to the cash received.

Foreign Exchange
Assets and liabilities of foreign subsidiaries and investees, all of which are self-sustaining, are translated using the exchange rate in effect at the year end and revenues and expenses are translated at the average rate during the year. Exchange gains or losses on translation of the Company's net equity investment in these foreign subsidiaries and investees are deferred as a separate component of shareholders' equity. The appropriate amounts of exchange gains or losses accumulated in the separate component of shareholders' equity are reflected in income when there is a reduction in the Company's investment in these subsidiaries and investees as a result of capital transactions.

Foreign exchange gains and losses on transactions during the year are reflected in income except for gains and losses on foreign exchange forward contracts used to hedge specific future commitments in foreign currencies. Gains or losses on these contracts are accounted for as a component of the related hedged transaction.

Income Taxes
The Company follows the deferral method of tax allocation in accounting for income taxes. Under this method, timing differences between accounting and taxable income result in the recording of deferred income taxes.

Investment tax credits relating to fixed asset purchases and research and development expenses are accounted for as a reduction of the cost of such assets and expenses, respectively.

2. BASIS OF PRESENTATION

The consolidated financial statements presented for the years ended July 31, 1996, 1995 and 1994 give effect to the July 18, 1995 corporate reorganization outlined under "Significant Accounting Policies". Having given effect to such reorganization, cash funding to and the investments in Blau North America and Blau Europe have been reflected through increases in the following for the periods preceding July 18, 1995:

	Class B Shares	Debt due to Magna	Total
	[Canadian dollars in thousands]		
Opening balance August 1, 1993	$ 273	$4,452	$ 4,725
Year ended July 31, 1994	875	497	1,372
	1,148	4,949	6,097
Period ended July 17, 1995	335	4,210	4,545
	$1,483	$9,159	$10,642

These consolidated financial statements include the results of Blau North America from commencement of operations in July 1993. The impact of such inclusion on the Company's operating results was to increase sales by $0.9 million for the year ended July 31, 1995 [1994 - $0.1 million] and to decrease income before income taxes and minority interest by $3.3 million for the year ended July 31, 1995 [1994 - $1.1 million] These consolidated financial statements also reflect the Company's equity loss in the results of Blau Europe from the date of acquisition by Magna in 1993 until July 31, 1995 and, thereafter, their results are fully consolidated.

3. SUBSIDIARIES AND INVESTMENTS

[a] Joint Ventures

The Company has ownership interests in the following joint ventures which are accounted for using the proportionate consolidation method:

	1996	1995	1994
STT	**45%**	–	–
LAP	**76.77%**	76.77%	76.77%

The consolidated financial statements include the Company's proportionate share of the revenues, expenses, assets and liabilities of its joint ventures as follows:

Results of Operations	**1996**	1995	1994
	[Canadian dollars in thousands]		
Sales	**$ 213,809**	$ 184,909	$ 151,903
Cost of goods sold	**166,032**	143,736	116,872
Other expenses	**31,709**	26,747	21,728
Net income, after tax allocation	**$ 16,068**	$ 14,426	$ 13,303

Financial Position	**1996**	1995
	[Canadian dollars in thousands]	
ASSETS		
Current assets	**$ 58,079**	$ 47,850
Long-term assets	**16,606**	17,098
Total assets	**$ 74,685**	$ 64,948
LIABILITIES AND EQUITY		
Current liabilities	**$ 31,963**	$ 27,387
Loans from partners	**16,217**	16,217
Long-term liabilities	**377**	939
Equity *[i]*	**26,128**	20,405
Total liabilities and equity	**$ 74,685**	$ 64,948

Changes in Financial Position	**1996**	1995	1994
	[Canadian dollars in thousands]		
Cash provided from (used for):			
Operating activities	**$ 20,607**	$ 24,064	$ 15,993
Investment activities	**(5,109)**	(4,634)	(2,803)
Financing activities *[ii]*	**(16,122)**	(12,038)	(17,623)
	$ (624)	$ 7,392	$ (4,433)

[i] Included in equity are undistributed earnings of $16.4 million [1995 - $9.7 million].

[ii] Included in cash flow from financing activities is a net cash distribution to the Company of $16.1 million for the year ended July 31, 1996 [1995 - $14.3 million, 1994 - $17.9 million].

Pursuant to agreements amongst the partners of LAP, the net income of LAP is to be distributed annually to the partners and each partner is required to loan back to LAP approximately 35% of such distribution, unless otherwise determined by the management committee of LAP. No amounts were required to be loaned back to LAP in 1996 or 1995. The management committee is responsible for overseeing and directing the operations and management of LAP and is comprised of four members of which the Company is entitled to appoint two.

Pursuant to agreements amongst the shareholders of STT, the Company is required to subscribe and pay for 1,200 Series 1 Preferred Shares of STT at a subscription price of $1,000 per share prior to July 31, 1997 and 300 Series 1 Preferred Shares at a subscription price of $1,000 per share prior to July 31, 1998.

The repayment of partners' capital of $7.4 million [1995 - $7.4 million] and loans are subject to the approval of the management committee. At July 31, 1996, the restricted net assets of LAP, after tax allocations, were $35.8 million [1995 - $32.7 million].

[b] Blau Europe
The investment in Blau Europe is subject to restrictions as outlined in Note 9[b][i]. At July 31, 1996, the restricted net assets of Blau Europe were $3.1 million [1995 - $1 million].

4. BUSINESS ACQUISITIONS

Prior Year Acquisition
During 1995, the Company acquired Blau North America and Blau Europe [the "Blau Companies"], consisting of three manufacturing operations, one each in Canada, Germany and Austria, as follows:

[i] On July 18, 1995, the Company acquired Magna's 45% interest in Blau Europe, its 55% interest in Blau North America and its advances to the Blau Companies in exchange for 254,256 Class B Shares of the Company and promissory notes in the amount of $9.2 million. This transaction has been accounted for in a manner similar to a pooling of interests as discussed in Notes 1 and 2.

[ii] On July 31, 1995, the Company completed its acquisition of the Blau Companies by purchasing the remaining 45% interest in Blau North America and 55% interest in Blau Europe, together with certain advances totalling $5.4 million, from 983743 Ontario Limited in exchange for 739,155 Class A Subordinate Voting Shares of the Company having a fair value of $7.8 million and the payment of $0.4 million in cash. The Company has accounted for this transaction using the purchase method of accounting. Goodwill of $5.0 million arising from the transaction has been reflected in other assets on the consolidated balance sheet as at July 31, 1995 and is being amortized on a straight-line basis over a period of ten years. The net effect of this transaction on the 1995 consolidated balance sheet is as follows:

	1995
	[Canadian dollars in thousands]
Non-cash working capital	$ 4,806
Fixed assets	20,163
Investments and other assets	358
Deferred income taxes	2,400
Bank indebtedness	(5,926)
Long-term debt	
[including portion due within one year]	(18,620)
Net assets acquired	3,181
Goodwill upon acquisition	4,989
Total purchase price	$ 8,170

If the Company's acquisition of the Blau Companies had occurred on the date 983743 Ontario Limited originally acquired its interests in the Blau Companies, unaudited pro forma sales of the Company would have been $379.1 million in 1995 and the net income of the Company would have been reduced by $6.0 million.

Under the terms of the acquisition from 983743 Ontario Limited, the Company has agreed to pay an additional amount to 983743 Ontario Limited equal to 50% of the aggregate combined net income less the aggregate combined losses of the Blau Companies in respect of the five-year period commencing July 1, 1993, subject to certain adjustments. No such earnout payment will be made if the aggregate combined net losses of the Blau Companies exceed their aggregate combined net income for the five-year period. As at July 31, 1996 no amounts were paid or owing.

5. NOTES RECEIVABLE

To assist employees in the purchase of Class A Subordinate Voting Shares offered through the Company's initial public offering in 1995, the Company provided non-interest bearing loans to qualifying employees who acquired not less than 100 nor more than 200 of such shares. The loans are evidenced by promissory notes and are being repaid by payroll deduction over a maximum thirty month period.

Of the total notes receivable of $0.6 million [1995 - $1.1 million], the portion receivable within one year of $0.5 million at July 31, 1996 [1995 - $0.5 million] has been classified as accounts receivable.

6. INVENTORIES

Inventories consist of:

	1996	1995
	[Canadian dollars in thousands]	
Raw materials and supplies	**$ 17,478**	$ 13,180
Work-in-process	**9,958**	8,949
Tooling	**3,096**	4,868
Finished goods	**13,564**	12,174
	$ 44,096	$ 39,171

7. FIXED ASSETS

Fixed assets consist of:

	1996	1995
	[Canadian dollars in thousands]	
Land	**$ 5,330**	$ 5,377
Buildings *[i]*	**21,606**	20,299
Machinery and equipment *[i]*	**153,984**	135,741
	180,920	161,417
Accumulated depreciation *[ii]*	**73,842**	65,277
	$107,078	$ 96,140

[i] The cost of certain fixed assets has been reduced by government grants in the amount of $1.8 million [1995 - $2.1 million]. The grants are payable to the Company on spending the required amount for the acquisition of fixed assets. Under the terms and conditions of the grants, a subsidiary of the Company is also required to maintain specified levels of employment, through the year 2000, and the Company is required to maintain a minimum level of equity or subordinated shareholder debt in the subsidiary.

[ii] Accumulated depreciation includes $3.9 million for buildings [1995 - $3.4 million] and $70.0 million for machinery and equipment [1995 - $61.9 million].

8. INCOME TAXES

[a] The provision for income tax expense differs from the expense that would be obtained by applying Canadian statutory rates [federal and provincial combined] as a result of the following:

	1996	1995	1994
Canadian statutory income tax rate	**44.6%**	44.5%	44.3%
Manufacturing and processing profits deduction	**(9.0)**	(9.0)	(8.5)
Expected income tax rate	**35.6**	35.5	35.8
Foreign rate differentials	**0.3**	5.2	1.1
Losses of equity investees		6.0	0.9
Losses of subsidiaries not tax benefited	**4.0**		
Other	**1.4**	(1.4)	0.9
Effective income tax rate	**41.3%**	45.3%	38.7%

[b] The details of the income tax provision are as follows:

	1996	1995	1994
	[Canadian dollars in thousands]		
Current provision			
Canadian federal taxes	**$ 7,486**	$ 4,731	$ 1,065
Provincial taxes	**4,284**	3,044	646
Foreign taxes	**2,935**	4,146	1,816
	$14,705	$11,921	$ 3,527
Deferred provision			
Canadian federal taxes	**1,290**	67	5,269
Provincial taxes	**787**	41	3,198
Foreign taxes	**(990)**		
	1,087	108	8,467
	$15,792	$12,029	$11,994

[c] Deferred income taxes have been provided on timing differences which consist of the following:

	1996	1995	1994
	[Canadian dollars in thousands]		
Tax deferred income	**$ 635**	$ 1,695	$ 3,134
Tax depreciation in excess of book depreciation	**1,496**	58	4,573
Other	**(1,044)**	(1,645)	760
	$ 1,087	$ 108	$ 8,467

[d] Income taxes paid in cash were $9.7 million for 1996 [1995 - $5.2 million; 1994 - $2.6 million].

[e] At July 31, 1996, certain subsidiaries of the Company have losses, incurred in various jurisdictions and having no expiry dates, of $11.3 million; however, $8.5 million of these losses are unavailable for utilization until 1998, and have not been tax benefited in the consolidated financial statements.

9. DEBT AND COMMITMENTS

[a] The Company's long-term debt consists of the following:

	1996	1995
	[Canadian dollars in thousands]	
Loans from governments [non-interest bearing]	**$ 2,614**	$ 3,661
Loan from government [bearing interest at 3%, repayable on June 30, 2000]	**90**	
Bank term debt	**16,540**	18,620
	19,244	22,281
Less amount due within one year	**3,310**	2,051
	$15,934	$20,230

[b] Bank term debt consists of:

[i] Term debt of $8.5 million [AS 64.2 million] [1995 - $9.8 million] advanced under a total line of $8.5 million. The interest on this debt was 4% per annum until June 30, 1996, at which time the rate was adjusted to 5%. For all future periods interest is payable quarterly in advance and the rate is based on the SMR ["Secondary Market Rate of Industry Bonds"] but cannot exceed 6% nor be less than 4% per annum. The loan is collateralized by certain land, building and machinery and equipment. The loan agreement provides for the maintenance of a certain ratio of other debt and equity to this loan as well as for a minimum level of investment in land, building and machinery and equipment. The first repayment of twelve equal semi-annual instalments was made July 1, 1996. The loan matures January 1, 2002.

[ii] Other long-term debt of $7.9 million [AS 60 million] [1995 - $8.4 million] advanced under a total line of $7.9 million. Interest is currently payable at VIBOR [Vienna Interbank Overnight Rate] plus 3/4%. Repayments in twelve equal semi-annual instalments commence June 30, 1997. The loan matures December 31, 2002.

[iii] Additional bank term debt, denominated in German deutschmarks, of $0.2 million [1995 - $0.4 million] advanced for the purchase of specific fixed assets under total lines of $0.2 million. Interest is payable at rates ranging from 3.5% to 9.5%. The principal amounts are repayable at various intervals over the next four years.

[c] Future annual principal repayments on long-term debt are estimated to be as follows for the years ending July 31:

	[Canadian dollars in thousands]
1997	$ 3,310
1998	3,983
1999	3,393
2000	2,958
2001	2,854
Thereafter	2,746
	$19,244

[d] Operating Lines

[i] The Company has an unsecured $40 million operating line of credit bearing interest at variable rates per annum not exceeding the bank's prime rate of interest. At July 31, 1996, the entire line was unused and available.

[ii] LAP has an unsecured operating line of credit in the amount of $15 million of which $14.9 million was available and unused at July 31, 1996. The credit agreement provides for the maintenance of certain financial ratios. LAP also has foreign exchange facilities in the amount of U.S.$50 million [see Note 9[h]]. One of LAP's subsidiaries has unsecured demand lines of credit totalling $3.7 million [DM 4 million] all of which was available and unused at July 31, 1996.

[iii] Blau Europe has various operating lines of credit denominated in both German deutschmarks and Austrian schillings in the amount of $8.2 million. As at July 31, 1996, $1.9 million of these lines were available. Interest is payable at VIBOR plus 1/2% [LIBOR plus 1/2% for drawings in foreign currencies] for loans denominated in Austrian schillings. Interest on German deutschmark denominated loans is payable at both prime rate and fixed rates between 5.25% and 8.5%. Accounts receivable and certain assets of subsidiaries have been pledged as collateral under these lines of credit.

[e] Interest paid includes:

	1996	1995	1994
	[Canadian dollars in thousands]		
Interest on long-term debt	**$ 758**		
Other interest expense (income), net - external	**(583)**	$ (119)	$ 126
Interest expense - debt due to Magna	**168**	2,435	761
Interest paid for the year	**$ 343**	$ 2,316	$ 887

[f] At July 31, 1996, the Company had commitments under operating leases requiring minimum annual rental payments for the years ending July 31 as follows:

	[Canadian dollars in thousands]
1997	$ 3,605
1998	2,785
1999	2,226
2000	1,844
2001	1,771
Thereafter	3,698
	$15,929

Approximately 34% of these lease commitments represent the Company's share of commitments of its proportionately consolidated joint ventures.
In 1996, payments under operating leases amounted to approximately $3.4 million [1995 - $3.0 million; 1994 - $2.1 million].

[g] As at July 31, 1996 the Company has commitments to purchase machinery and equipment in the amount of $11.2 million.

[h] The Company has net cash inflows denominated in U.S. dollars and German deutschmarks. The Company, including LAP, utilizes foreign exchange forward contracts for the sole purpose of hedging a significant portion of its projected exposure over a six-year period. This exposure is based on U.S. dollar and deutschmark denominated contractual commitments to deliver products to the Company's customers. At July 31, 1996, the Company had outstanding foreign exchange forward contracts representing a commitment to sell approximately U.S.$254.0 million and 37.9 million deutschmarks at weighted average rates of exchange of Cdn.$1.42 and Cdn.$1.03, respectively. These contracts mature over the next six years as follows:

	U.S. Dollar		Deutschmarks	
	Amount	Rate	Amount	Rate
	[Amounts in millions]			
1997	$ 89.2	$ 1.40	DM 5.2	$ 1.04
1998	74.5	1.43	12.3	1.04
1999	54.9	1.44	9.3	1.02
2000	18.0	1.43	9.2	1.02
2001	16.1	1.46	1.9	1.02
2002	1.3	1.47		
	$ 254.0		DM 37.9	

Based on foreign exchange rates as at July 31, 1996, the unrecognized gains relating to the Company's forward exchange contracts are approximately $16.6 million [1995 - $3.4 million]. If the Company's forward exchange contracts ceased to be effective as hedges [i.e., if projected net cash inflows declined significantly], previously unrecognized gains or losses pertaining to the portion of the hedging transactions in excess of projected foreign denominated cash flows would be recognized in income at the time this condition was identified.

[i] Prior to July 31, 1995, the Company's continuing funding requirements were advanced by Magna under Magna's credit facility. The Company, along with several other affiliates, was party to a guarantee of Magna's borrowings under Magna's $200 million revolving operating credit facility. On July 14, 1995, the Company was released from its obligations and guarantees under this facility. All of the debt due to Magna at July 31, 1995 has been classified as current since Magna can demand repayment at any time. This debt bears interest at rates not exceeding the bank's prime rate of interest plus 1/2 of 1%.

[j] Effective with the fiscal year beginning August 1, 1995, the Company's Corporate Constitution requires that a portion of the Company's profits be distributed or used for certain purposes, including but not limited to the following:
- allocation or distribution of 10% of pre-tax profits to employees and/or the Tesma Employee Equity Participation and Profit Sharing Program;
- allocation of a minimum of 7% of pre-tax profits to research and development; and
- payment of dividends to shareholders based on a formula of after-tax profits.

10. CAPITAL STOCK

Prior to July 31, 1995, the Company amended its Articles of Incorporation to, among other things, change its authorized and issued capital stock and the rights, restrictions and conditions attaching to each class of shares of the Company.

[a] Convertible Series Preferred Shares
The Company is authorized to issue the following Convertible Series Preferred Shares:

	Number of shares
Preferred Shares, Series 1	300,000
Preferred Shares, Series 2	200,000
Preferred Shares, Series 3	200,000

These shares have the following attributes:
- 6.5% preferential non-cumulative cash dividend per annum, payable on a fiscal quarterly basis
- retractable at their carrying value by the holders thereof after August 1, 1997, in the case of the Preferred Shares, Series 1; August 1, 1998, in the case of the Preferred Shares, Series 2; and August 1, 1999, in the case of the Preferred Shares, Series 3

- redeemable at their carrying value and subject to purchase for cancellation by the Company commencing August 1, 1998
- convertible into Class A Subordinate Voting Shares at a price of $11.025 per share [subject to certain customary antidilutive adjustments]

At July 31, 1996 and 1995, outstanding Convertible Series Preferred Shares included in shareholders' equity consisted of [Canadian dollars in thousands]:

	Number of shares	**Stated value**
Preferred Shares, Series 1	300,000	**$ 30,000**
Preferred Shares, Series 2	200,000	**20,000**
Preferred Shares, Series 3	200,000	**20,000**
		$ 70,000

The Convertible Series Preferred Shares were issued to Magna on July 18, 1995 in satisfaction of $70 million of the Company's indebtedness to Magna.

The Canadian Institute of Chartered Accountants has issued new accounting recommendations for the presentation and disclosure of financial instruments. These recommendations impact on the classification of the Company's Convertible Series Preferred Shares, and will be adopted by the Company on a retroactive basis commencing in fiscal 1997. In addition to a reclassification of the Company's Convertible Series Preferred Shares between liabilities and shareholders' equity, the adoption of these recommendations will require the amortization of the discount on the portion of the Convertible Series Preferred Shares classified as a liability. As a consequence, net income attributable to Class A Subordinate Voting and Class B Shares will decrease and a portion of the dividends declared on the Convertible Series Preferred Shares will be directly reflected as a return of capital. There will be no impact on fully diluted earnings per share for fiscal 1996 and prior years.

[b] Class A Subordinate Voting Shares and Class B Shares

Class A Subordinate Voting Shares without par value [unlimited amount authorized] are entitled to one vote per share at all meetings of shareholders and shall participate equally as to cash dividends with each Class B Share.

Class B Shares without par value [unlimited amount authorized] are entitled to 10 votes per share at all meetings of shareholders, shall participate equally as to cash dividends with each Class A Subordinate Voting Share and may be converted at any time into fully-paid Class A Subordinate Voting Shares on a one-for-one basis.

In the event that either the Class A Subordinate Voting Shares or the Class B Shares are subdivided or consolidated, the other class shall be similarly changed to preserve the relative position of each class.

On July 31, 1995, the Company received the net proceeds from the initial public offering of 2,990,000 of its Class A Subordinate Voting Shares for aggregate consideration of $31.4 million. Concurrent with this transaction, the Company also issued 739,155 Class A Subordinate Voting Shares as partial settlement of the purchase of the remaining interests in the Blau Companies as outlined in Note 4[a].

At July 31, outstanding Class A Subordinate Voting Shares and Class B Shares included in shareholders' equity consisted of [Canadian dollars in thousands]:

	Class A Subordinate Voting Shares		Class B Shares	
	Number of shares	Consideration	Number of shares	Consideration
Balance July 31, 1993 and 1994 *[i]*	2,634,492		10,223,475	$ 1,100
Consolidation of Class A Subordinate Voting Shares on a 0.9579873 for one basis	(110,682)			
Consolidation of Class B Shares on a 0.9526558 for one basis			(484,022)	
Issuance of Class B Shares to 1128969 Ontario Inc. for cash			1,706,381	17,917
Reduction in stated capital of Class B Shares *[ii]*				(17,917)
Repurchase of Class A Subordinate Voting Shares from 1128969 Ontario Inc. in exchange for Class B Shares	(2,523,810)		2,523,810	
Issuance of Class B Shares to 1128969 Ontario Inc. for its 55% interest in Blau North America and its 45% interest in Blau Europe *[i]*			254,256	1,483
Issuance of Class A Subordinate Voting Shares to 983743 Ontario Limited *[Note 4[a]]*	739,155	$ 7,761		
Initial public offering *[iii]*	2,990,000	28,927		
Balance July 31, 1995	3,729,155	36,688	14,223,900	2,583
Offering expenses *[iii]*		(95)		
Balance July 31, 1996	**3,729,155**	**$ 36,593**	**14,223,900**	**$ 2,583**

[i] The consideration for these shares of $1.5 million has been presented in a manner consistent with the basis of presentation for these investments as outlined in Notes 1, 2 and 4. As such, the stated value of the Class B Shares as presented on the consolidated balance sheets reflects the increases in Class B Shares as outlined in Note 2.

[ii] By resolution dated July 18, 1995 the Company reduced the stated capital of the outstanding Class B Shares of the Company by $17.9 million and increased retained earnings by a corresponding amount.

[iii] Details of the proceeds from the 1995 initial public offering of Class A Subordinate Voting Shares are as follows:

	[Canadian dollars in thousands]
Total proceeds - 2,990,000 shares at $10.50 per share	$ 31,395
Underwriters' fee	(1,884)
Other expenses of the issue	(1,874)
Tax savings in respect of above fee and expenses	1,290
Net proceeds	$ 28,927

In 1996, additional expenses of the issue in the amount of $95, net of deferred taxes of $54 were incurred. These amounts are shown as a reduction of the consideration on the Class A Subordinate Voting Shares in 1996.

[c] Incentive Stock Option Plan

On July 19, 1995, the Company adopted the 1995 Incentive Stock Option Plan. Under this plan the Company may grant options to purchase Class A Subordinate Voting Shares to present and future officers and other full-time employees of the Company. The maximum number of shares reserved to be issued for options under this plan is 3,000,000 subject to certain adjustments as provided for in the 1995 Incentive Stock Option Plan.

The following is a continuity schedule of the options:

	Number	Price
Options granted in connection with the 1995 initial public offering	800,000	$10.50
Balance, July 31, 1995	800,000	
Options granted during the year	150,000	$10.50
Balance, July 31, 1996	**950,000**	

All options granted are for a term of ten years from the date of grant. The number of unoptioned shares available to be reserved at July 31, 1996 was 2,050,000.

[d] Maximum Number of Shares

The following table presents the maximum number of shares that would be outstanding if all the outstanding options and Convertible Series Preferred Shares issued and outstanding at July 31, 1996 were exercised or converted.

	Number of shares
Class A Subordinate Voting Shares outstanding at July 31, 1996	3,729,155
Class B Shares outstanding at July 31, 1996	14,223,900
Options to purchase Class A Subordinate Voting Shares	950,000
Preferred Shares, Series 1, convertible at $11.025 per share	2,721,088
Preferred Shares, Series 2, convertible at $11.025 per share	1,814,059
Preferred Shares, Series 3, convertible at $11.025 per share	1,814,059
	25,252,261

[e] Basic Earnings Per Share

Earnings per Class A Subordinate Voting Share and Class B Share for the year ended July 31, 1996 has been calculated using 17,953,055 [1995 - 14,223,900] shares, representing the daily weighted average number of Class A Subordinate Voting Shares outstanding during the year of 3,729,155 [1995 - nil] plus 14,223,900 [1995 - 14,223,900] Class B Shares being the number of Class B Shares outstanding after the completion of all of the capital transactions described in Note 10 [b].

Earnings per share for the year ended July 31, 1994 have been determined using only the 14,223,900 Class B Shares described in the preceding paragraph.

[f] Fully Diluted Earnings Per Share

The calculation of fully diluted earnings per share assumes that, if a dilutive effect is produced, all Convertible Series Preferred Shares had been converted, and all outstanding options had been exercised at the later of the beginning of the year and the issue date. There is an allowance for imputed earnings equal to the dividends declared on the Convertible Series Preferred Shares and imputed after-tax earnings on the proceeds that would be received through the assumed exercise of the stock options based on an assumed after-tax rate of return of 3.8%.

[g] Dividends

Dividends declared and paid on the outstanding Class A Subordinate Voting Shares and Class B Shares excluding the July 18, 1995 series of dividends described below aggregated $2.7 million in 1996 [1995 - $3.0 million, 1994 - $4.2 million]. In connection with the reorganization of the Company on July 18, 1995 as discussed under "Principles of Consolidation", the Company declared and paid a series of dividends aggregating $45 million on the then outstanding Class A Subordinate Voting Shares and Class B Shares.

11. CURRENCY TRANSLATION ADJUSTMENT

The following is a continuity schedule of the currency translation adjustment account included in shareholders' equity:

	1996	1995
	[Canadian dollars in thousands]	
Balance, beginning of year	**$ 4,298**	$ 2,056
Translation adjustments	**(1,425)**	2,242
Balance, end of year	**$ 2,873**	$ 4,298

Unrealized translation adjustments, which arise on the translation to Canadian dollars of assets and liabilities of the Company's self-sustaining foreign operations, resulted in an unrealized currency translation loss of $1.4 million for fiscal 1996 [1995 - gain of $2.2 million] primarily from the weakening of foreign currencies against the Canadian dollar during the year.

12. RESEARCH AND DEVELOPMENT

The Company carries on various applied research and development programs, certain of which are partially or fully funded by governments or by customers of the Company. Research and development expenditures, net of amounts funded by governments or customers, for 1996 were $8.7 million [1995 - $4.5 million, 1994 - $3.4 million].

13. DETAILS OF CASH FROM OPERATING ACTIVITIES

[a] Items not involving current cash flows:

	1996	1995	1994
	[Canadian dollars in thousands]		
Depreciation and amortization	**$14,829**	$ 9,062	$ 7,260
Minority interest		(406)	(494)
Deferred income taxes	**1,087**	108	8,467
Equity loss		4,486	710
Other	**1,279**	1,132	561
	$17,195	$14,382	$16,504

[b] Changes in non-cash working capital:

	1996	1995	1994
	[Canadian dollars in thousands]		
Accounts receivable	**$(12,242)**	$(3,834)	$(10,517)
Inventories	**(4,102)**	(6,630)	(9,411)
Prepaid expenses and other	**1,459**	(456)	(1,316)
Accounts payable and other accrued liabilities	**4,895**	3,236	6,827
Accrued salaries and wages	**4,434**	466	1,221
Income taxes payable	**3,502**	8,177	1,323
	$ (2,054)	$ 959	$(11,873)

14. SEGMENTED INFORMATION

The Company's operations are substantially all related to the automotive industry. Operations include the manufacture of automobile parts for original equipment manufacturers as well as products for the after-market. Substantially all of the Company's revenues are derived from sales to North American and European facilities of the major automobile manufacturers. For the year ended July 31, 1996, sales to the Company's four largest customers amounted to 31%, 19%, 12% and 8% [1995 - 33%, 24%, 11% and 9%; 1994 - 31%, 28%, 14% and 10%] of total sales, respectively.

The following table shows certain information with respect to geographic segmentation:

	Canada				Europe	Eliminations	Total
	Domestic	Export					
		U.S.A.	Europe	Other			
	[Canadian dollars in thousands]						
July 31, 1996							
Sales	$ 38,171	$228,087	$51,510	$30,808	$107,004		$455,580
Intersegment			5		3,507	$(3,512)	
	$ 38,171	**$228,087**	**$51,515**	**$30,808**	**$110,511**	**$(3,512)**	**$455,580**
Income before income taxes and minority interest	**$ 37,723**				**$ 552**		**$ 38,275**
Assets	**$196,813**				**$ 61,608**		**$258,421**
July 31, 1995							
Sales	$ 34,157	$185,007	$34,288	$23,221	$ 68,235		$344,908
Income before income taxes and minority interest	$ 22,477				$ 4,057		$ 26,534
Assets	$177,637				$ 68,161		$245,798
July 31, 1994							
Sales	$ 26,530	$158,063	$18,908	$17,053	$ 59,789		$280,343
Income before income taxes and minority interest	$ 25,420				$ 5,577		$ 30,997
Assets	$ 98,996				$ 28,452		$127,448

15. RELATED PARTY TRANSACTIONS

The Company had transactions with Magna and its affiliates as follows:

	1996	1995	1994
	[Canadian dollars in thousands]		
Interest, affiliation fees and other charges by Magna and affiliates	**$10,159**	$10,002	$7,893
Sales to Magna and affiliates	**$14,665**	$10,793	$6,616
Purchases of materials from Magna and affiliates	**$ 5,444**	$ 5,152	$2,847

The Company is party to an affiliation agreement with Magna that provides for the payment by the Company of an affiliation fee and certain other negotiated fees in exchange for, among other things, Magna granting the Company a non-exclusive world-wide licence to use certain Magna trademarks, and Magna providing certain management and administrative services to the Company. The affiliation fee is based on the sum of certain specified percentages of the consolidated net sales and the pre-tax profits before profit sharing [after adjustments to add back certain amounts specified in the agreement] of the Company and its subsidiary entities and joint ventures in which it has an equity interest, less any fees paid to other Magna affiliates for providing, instead of Magna, benefits or services to the Company.

16. CONTINGENCIES

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the extent of potential costs and losses, if any, management believes that the ultimate resolution of such contingencies will not have a material adverse effect on the consolidated financial position of the Company.

17. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Company's consolidated financial statements are prepared using accounting policies generally accepted in Canada ["Canadian GAAP"] which conform with accounting principles generally accepted in the United States ["United States GAAP"] except for the following:

[a] Under United States GAAP the income tax provision would be calculated using the liability rate method. The Financial Accounting Standards Board issued SFAS 109, accounting for income taxes, which became effective for the Company's 1994 fiscal year. The impact of adopting this standard on a prospective basis in fiscal 1994 was a reduction in the income tax provision of $1.1 million [$0.08 per share] substantially all of which related to fiscal 1993 and prior fiscal years. Prior to the implementation of SFAS 109, there was no difference in the accounting for income taxes under Canadian GAAP and United States GAAP;

[b] The calculation of primary earnings per share would be calculated using the weighted average number of common shares and common share equivalents which include stock options using the treasury stock method. However, because the stock options are anti-dilutive for all periods presented they are excluded from the calculation. The calculation of fully diluted earnings per share requires the use of the treasury stock method to calculate the weighted average number of outstanding shares;

[c] The loans to employees, as described in note 5, which were provided for the purpose of purchasing Class A Subordinate Voting Shares would be shown as a reduction of the Class A Subordinate Voting Shares;

[d] The Convertible Series Preferred Shares would be excluded from shareholders' equity;

[e] The Company would account for its investment in its joint ventures using the equity method. However, a reconciliation from the proportionate consolidation method to the equity method of accounting for the Company's investment in its joint ventures has not been provided as it is not required under United States securities regulations;

[f] Non-cash activities would not be reported in the consolidated statements of cash flows. As a result, in 1995 the cash used for investment activities, as described in note 4[a][ii], would decrease by $7.8 million and the cash provided from financing activities would decrease by $7.8 million; and,

[g] Under SAB 74, the Company is required to disclose certain information related to new accounting standards which have not yet been adopted due to delayed effective dates. Specifically, SFAS 123 "Accounting for Stock Based Compensation" is effective for fiscal years beginning after December 15, 1995 and requires companies to use recognized option pricing models to estimate the value of stock based compensation, including stock options. The statement requires that certain disclosures based on this valuation be disclosed and encourages, but does not require, the companies to recognize the value of any stock options granted as additional compensation expense as calculated under SFAS 123. The Company does not intend to recognize compensation expense as calculated under SFAS 123 and intends to continue recognizing expense as prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees", as permitted by SFAS 123. As a result, SFAS 123 will have no effect on the Company's consolidated financial statements except for the disclosures described above.

The following table presents net income and earnings per share information following United States GAAP:

	1996	1995	1994
	[Canadian dollars in thousands]		
Net income attributable to Class A Subordinate Voting Shares and Class B Shares under Canadian GAAP	**$18,918**	$14,911	$19,497
Adjustments:			
Income tax provision adjustment under the liability rate method	**(270)**	110	1,070
Net income attributable to Class A Subordinate Voting Shares and Class B Shares under United States GAAP	**$18,648**	$15,021	$20,567
Earnings per Class A Subordinate Voting Share or Class B Share			
Primary	**$ 1.04**	$ 1.06	$ 1.45
Fully diluted	**$ 0.91**	$ 1.04	$ 1.45
Weighted average number of Class A Subordinate Voting Shares and Class B Shares outstanding during the year [in millions]			
Primary	**18.0**	14.2	14.2
Fully diluted	**24.3**	14.5	14.2

Under United States GAAP, the Company's deferred tax liabilities consist of the following timing differences:

	1996	1995
	[Canadian dollars in thousands]	
Tax deferred income	**$ 8,446**	$ 7,810
Tax depreciation in excess of book depreciation	**15,907**	5,581
Tax losses	**(7,379)**	(4,480)
Valuation allowance	**4,135**	2,280
	$21,109	$11,191

The following table presents shareholders' equity under United States GAAP:

	1996	1995
	[Canadian dollars in thousands]	
Class A Subordinate Voting Shares	**$35,854**	$35,506
Class B Shares	**2,583**	2,583
Retained earnings	**36,346**	20,389
Currency translation adjustment	**2,873**	4,298
	$77,656	$62,776

18. COMPARATIVE FIGURES

CAN 77485

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 1996 consolidated financial statements.

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QUARTERLY FINANCIAL INFORMATION (UNAUDITED)
[Canadian dollars in thousands, except per share figures]

Fiscal 1996	October 31	January 31	April 30	July 31	Total
Sales	$109,363	$109,460	$120,281	$116,476	**$455,580**
Income before income taxes	7,798	7,959	13,439	9,079	**38,275**
Net income	4,714	5,101	7,033	5,635	**22,483**
Basic earnings per Class A Subordinate Voting and Class B share	$ 0.25	$ 0.22	$ 0.33	$ 0.25	**$ 1.05**
Fully diluted earnings per Class A Subordinate Voting and Class B share	$ 0.19	$ 0.21	$ 0.28	$ 0.23	**$ 0.91**

5 YEAR FINANCIAL SUMMARY AND SHARE INFORMATION

OPERATIONS DATA

	Years Ended July 31				
	1992	1993	1994	1995	**1996**
	[Canadian dollars in thousands, except per share figures]				
Sales	$ 167,667	$ 223,761	$ 280,343	$ 344,908	**$ 455,580**
Income before equity losses, income taxes and minority interest	7,893	25,283	31,707	31,020	**38,275**
Net income	6,833	22,278	19,497	14,911	**22,483**
Earnings per Class A Subordinate Voting Share and Class B Share					
Basic	$ 0.48	$ 1.57	$ 1.37	$ 1.05	**$ 1.05**
Fully diluted	$ 0.48	$ 1.57	$ 1.37	$ 1.03	**$ 0.91**
Average number of Class A Subordinate Voting Shares and Class B Shares outstanding [in millions]					
Basic	14.2	14.2	14.2	14.2	**18.0**
Fully diluted	14.2	14.2	14.2	14.5	**25.1**
Cash flow from operating activities	$ 9,650	$ 37,616	$ 24,128	$ 30,252	**$ 37,624**

FINANCIAL POSITION

	As at July 31				
	1992	1993	1994	1995	**1996**
	[Canadian dollars in thousands, except debt to equity ratio]				
Cash (net of bank indebtedness)	$ 2,874	$ 5,533	$ (3,022)	$ 37,898	**$ 28,641**
Total assets	78,009	101,554	127,448	245,798	**258,421**
Fixed asset additions	2,406	7,123	15,778	28,318	**29,175**
Long-term debt (excluding current portion)	59,064	48,183	34,448	20,230	**15,934**
Shareholders' equity (deficit)	(15)	20,181	38,704	132,778	**147,485**
Long-term debt (excluding current portion) to equity ratio	N/A	2.37:1	0.88:1	0.15:1	**0.11:1**

1996 SHARE INFORMATION

The Class A Subordinate Voting Shares ["Class A Shares"] are listed and traded in Canada on The Toronto Stock Exchange ["TSE"] and in the United States on the NASDAQ Stock Market. As of September 30, 1996, there were 93 registered holders of Class A Shares.

CANADA

Class A (TSE) ($CDN)

Quarter	Volume	High	Low	Close
1st	695,090	10 3/8	6 1/2	7 3/4
2nd	782,610	9 7/8	6 1/2	8 5/8
3rd	428,292	10.00	7 5/8	9.60
4th	316,945	10.50	8.95	10.50

UNITED STATES

Class A (NASDAQ) ($US)

Quarter	Volume	High	Low	Close
1st	112,565	7 3/4	4 63/64	5 3/4
2nd	109,700	7 1/4	4 3/4	6 11/32
3rd	64,518	7 1/8	5 27/32	7 1/8
4th	32,500	7 5/8	6 3/8	7 5/8

DISTRIBUTION OF SHARES

Class A

Country	%
Canada	82.0
United States	4.4
Other	13.6

CORPORATE INFORMATION

BOARD OF DIRECTORS

Donald J. Walker (2)
Chairman of the Board, Tesma International Inc.
President & Chief Executive Officer, Magna International Inc.

Manfred Gingl
President & Chief Executive Officer, Tesma International Inc.

Oscar B. Marx, III (2)
President & Chief Executive Officer, TMW Enterprises Inc.

J. Robert S. Prichard (1) (2)
President, University of Toronto

Robert K. Rae (1)
Partner, Goodman, Phillips & Vineberg

Frank Stronach
Chairman of the Board, Magna International Inc.

Judson D. Whiteside (1)
Chairman & Chief Executive Officer, Miller Thomson

(1) member of the Audit Committee
(2) member of the Human Resources and Compensation Committee

OFFICERS

(Front Row, left to right) **Pat Cerullo**, Vice President, Sales & Marketing, **Fred Gingl**, President & Chief Executive Officer, **Dave Carroll**, Vice President, Planning and Corporate Development, (Back Row, left to right) **Franz Reiterer**, Vice President, Manufacturing, **Jim Moulds**, Controller, **Steve Proniuk**, Vice President, Secretary & General Counsel, **Tony Dobranowski**, Executive Vice President & Chief Financial Officer.

TRANSFER AGENTS AND REGISTRARS

Canada - Class A
Montreal Trust Company of Canada, Toronto
United States - Class A
The Bank of Nova Scotia Trust Company of New York, New York

STOCK LISTING

Class A
The Toronto Stock Exchange - TSM.A
NASDAQ Stock Market- TSMAF

PRINCIPAL BANKERS

Canadian Imperial Bank of Commerce, Toronto, Canada

AUDITORS

Ernst & Young, Toronto, Canada

ANNUAL MEETING OF SHAREHOLDERS

11:00 a.m., Wednesday, December 4, 1996
Vanity Fair Ballroom, King Edward Hotel
37 King Street East, Toronto, Ontario, Canada

CORPORATE OFFICE

300 Edgeley Boulevard
Concord, Ontario, Canada L4K 3Y3
Telephone: (905) 669-5444
Telefax: (905) 738-4888

INVESTOR INFORMATION

Shareholders seeking assistance or information about the Company are requested to contact Anthony E. Dobranowski, Executive Vice President & Chief Financial Officer at:

300 Edgeley Boulevard
Concord, Ontario, Canada L4K 3Y3
Telephone: (905) 669-7355
Telefax: (905) 669-0673

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